

State Employee Retirement Bill

Public School Employee Bill

I am Mark Rapelje. I am 53 years old and an employee of the Executive Branch of the State of Michigan for 32 years. I need to make clear to this committee and the press that I'm using my vacation time to appear here today. I am testifying as a member of the public and not for any organization, any department of the State of Michigan, any union or any other type of organization. I have written this testimony on my own time and paid for the printing of this testimony with my own funds.

I do not qualify for retirement under this bill and I am not asking for it to be modified to allow me to retire. Although this bill will not allow me to retire, it will still affect my family and thousands of families of other State Employees.

In my testimony I will be asking this committee to not be rushed by the budget office's and the Office of Retirement Services' desires for "quick action". Getting it right is far more important than "quick action" that creates unforeseen problems. If this bill is so critical to balancing the State budget, why was it not introduced last year?

Through my testimony I will bring to light the negative factors included in this bill and the fact that **all State Employees are not being treated equally**. Doing so will bring additional cost savings to the State. It is my hope that the press, after hearing these facts, will be encouraged to report the truth. The truth is some groups of State Employees are not making the same pay and benefit concessions as the State executive branch employees and public school employees.

My first objection to this set of bills is that they remove the paid vision and dental coverage from the public school employees' and the executive branch State Employees' retirement package. This set of bills will **retroactively** remove the promised benefits from dedicated long-term public employees. These bills do not do the same to the legislators. The Michigan Senate has shown an unwillingness to stop the practice of providing **lifetime health insurance to politicians that are in office for as little as 6 years**. The Michigan House of Representatives has gone as far as to pass two (2) bills to take away these benefits. One bill would make the changes retroactive to current legislators and to all future legislators. The other bill would only affect those elected in the future. Both of these bills sit in a Senate committee that refuses to debate the bills, let alone vote on them.

My position is that the retroactivity actions of this bill should be removed. If this is not possible, due to the need for cost savings, you need to tie bar the retroactivity sections of this bill to the passage of the House bill that removes the lifelong health care benefits for current and future

legislators. This would create significant savings for the State of Michigan. A second option would be to provide the Legislative Branch employees (elected and appointed) with the same retirement benefits as the Executive Branch employees. This would require both groups to use the current sliding scale that requires the state to pay a higher percentage of the insurance premiums for additional years of service. This second option would not save the State of Michigan as much money, but the savings would still be significant.

My second objection to the legislation before us is the new requirement for current State Employees to pay 3% of their wages into the State's retirement plan. It is true that in the early 1970s the executive branch employees paid 3% of their wages into the State of Michigan retirement system. In the early 1970s inflation was sky high (around 14%). A trade off was made. The State of Michigan employees would not receive their cost of living pay raise and the State of Michigan would fully fund the retirement account. Now the State claims that the need to reinstate the 3% contribution is due to the fund being insolvent. If the fund is insolvent, how did the fund become insolvent? After all, the trade off required the State to fully fund the retirement account!!

The underlying cause of the retirement fund being underfunded is simple; the State of Michigan did not make adequate deposits into the retirement account. This practice started with the prior administration and continued into the current administration. The decision makers for the State stopped using the standard accounting practice of using a 10 or 12 year average of the growth of the account's investments to project future growth. Instead they used accounting gimmicks to artificially skew the future projected growth of the investments. The decision makers used longer or shorter years of averages to include higher years of growth and/or to cut out the lower or negative years of growth of the investments. This did allow the State short term savings, but, the fact is, it simply passed the ever growing problem down the road. When the discussion was made to use accounting gimmicks the decision makers were well aware of the **financial gamble** they were making. The decision makers' gamble was based on the hope that the economy and stock market would recover quickly. That is the only way the financial gamble would pay off. Year after year the gamble did not pay off; instead the economy and stock markets went from bad to worse, then into a country wide recession. The decision makers (Governor, governor appointees, the legislators and the political bosses) created this situation and the only solution they can find is to put it on the backs of dedicated public employees.....again!!

I guess I should not be surprised that you are so eager to back away from a promise that the State of Michigan made. After all, you have already backed out of the Promise Scholarship for Michigan's children. Isn't it ironic that struggling Michigan families are raising their children to take the high moral ground, insisting that our children do the right thing and honor their

promises by doing what they say they will do while our elected representatives turn their backs and run away from promises that they have made to our children. Take a moment to think about the type of example you, as leaders, are setting for our future generations.

My next point is the plan to continue cutting back on the current level of State Employees. The Governor's stated goal of this bill is to only hire two (2) employees for every 3 that retire. Over the last dozen years the number of State Employees has continued to decline and the spending on contracted services continues to rise. Please take some time to investigate the ever increasing use of contracted services. I am going to shed some light on 3 major DIT contracts that I am familiar with. Let me be clear, I'm not saying that these are the only DIT contracts or the only contracts in all of state government (including the public schools) that deserve your attention. Instead, I am saying these are 3 major contracts that I am familiar with.

Before I continue, I must make it clear that I have not been directly involved in the bidding of these contracts, and I have not fully participated in implementing these applications, so my observations should be verified with persons directly involved in these projects before taking my observations as absolute facts.

The Bridges project of DHS, the BAM project for MDOS and a system the MiCSES for DHS CSES. All three of the contracts have many things in common:

1. The companies that were the successful bidders all claimed that they had written software that did this same very thing in other states, so they would only have to modify their current code to match the slight changes to incorporate in Michigan's business rules. Therefore, their solution could be quickly implemented.
2. They are years behind their schedules.
3. They will require significantly more hardware than proposed in their bids.
4. They will require electronic bandwidth that far exceeds the specifications written into their bids.
5. They are millions of dollars over budget.
6. They are filled with faulty computer coding.
7. The contracts were given to companies that are based outside of the State of Michigan.

8. The State of Michigan is providing office space, including heating/cooling and electrical power, free of charge to the contractors writing the code of these applications.
9. The State of Michigan has invested too much money and time to walk away from these contracts.

The **MiCSES application** is fully deployed. The contractors are still working under contract for two major reasons. The job scheduler is written inside the application instead of allowing an off the shelf application to schedule the jobs. Permanent State Employees cannot be hired due to the arbitrary limits placed on the number of State Employees that can be employed

After falling more than a year behind in the schedule for the release of the **BAM application**, the contractor had to finally admit that their current plan would not work. The contractor went out and purchased a company to make additional software available to them. The BAM software that was already written is now being modified to run on top on the software from the new company.

The **Bridges application** is now a production system being used by all of the DHS county offices and the central office staff. The Bridges system is being used to process DHS claims to clients and vendors. It is also being used by Child and Adult Protective Services workers. This application is very unstable and it crashes on a weekly and sometimes daily basis. The bad news is after years of writing code there are currently hundreds of problems with the application; the good news is the contractors have solved thousands of problems. More bad news, due to the ongoing problems clients and vendors cannot always depend on receiving their funds on time. More bad news, thousands of DHS employees that have extremely high case loads are forced to use this very unreliable software and are working under the threat of discipline, if they fall behind in their workload.

My third point is that the decision makers of the State continue to implement cost saving methods to lower the cost of hourly Executive Branch employees only. These same cost saving methods could be equally implemented in the other two branches of the State of Michigan government to bring in additional savings but the decision makers have decided not to do so. This is not new. Instead it has been the pattern for many, many years. Specifically with the latest economic downturn, the Executive Branch State Employees have continued to sacrifice their pay and benefits to right the wrongs of the State's unbalanced budgets. The pay and benefit cuts have included unpaid furlough days, banked leave time, increased co pays, lower level of insurance coverage that come with higher employee premiums and pay raises that did not keep up with the rate of inflation. Additional substantial savings could be reached if these costs saving tactics were used at the same level across all three levels of government.

The news media outlets give wide coverage to "State Employees Receiving Pay Raises While the State of Michigan Goes Broke." At the same time, seldom, if ever, are the high amounts of concessions made by state employees ever covered. In addition, they never mention that the cost savings tactics are not being used across all three branches of government.

I now challenge the news media to investigate the points that I have made and to publish a simple chart that shows a breakdown of number of employees (show comparisons of a point in the past and current numbers), their average wages, the average cost of benefits, average cost of retirement based on the number of years of service, and the concessions taken during the past dozen years. This chart should be broken down by employee group; hourly executive branch employees, legislative branch employees, legislators, judicial hourly employees, the Governor, the governor's hourly employees, and the governor appointees. The chart should clearly show the dollar amounts per employee. It would also be helpful if the figures were also shown using percentages. Lastly a simple chart showing the escalating costs of contracted services would be very helpful.

I also challenge the news media to put together the same type of chart for the public school employees, using appropriate groupings of employees such as in the class room staff, support staff and administrators.

These charts will show that highly dedicated public servants (public school employees and the hourly executive branch of State Employees) are being singled out to be punished for no fault of our own, but instead for the ideological goals of elected officials and their political party bosses.

The bottom line is, the number of State Employees continues to shrink and the budget simply continues to get worse and the tax payers satisfaction of the provided state's services is at a record low. Now the legislature is being asked to implement new budget cutting measures that will further cut the number of State Employees and you are being asked to do it quickly without any modifications. If this solution is so very important to Michigan's future, why was it not proposed a year ago?

My last point is the projected costs saving numbers are based upon unrealistic projections of the number of employees that will retire. During testimony by Michigan's budget office and the Office of Retirement Services to the House of Representatives (Oversight and Investigations Committee) the numbers of 65% to 85% were given. In the state government offices the conversation of who qualifies and who will actually retire is ongoing. From these conversations the actual number of employees that will retire will be well below 50% and could be as low as 25%. The reasons given vary widely and include the following:

- The multiplier increase of 1/10th of a percent per year of service is not enough of an increase to allow me to pay my monthly bills.
- The high unemployment levels will make it very difficult for someone of my age to find even a part time job to replace my lost income. (difference between current pay check and a retirement paycheck)
- I still have kids in college. With the high cost of classes, books and boarding if I were to retire, it would put my children and my financial situation at great risk.
- My plan has been to move someplace warm (to be near my grand children/parents) when I retire. With the current housing market I have very little equity in my home. I would not be able to afford to buy a home in my new location. I have to continue to work until the housing market turns around.
- The stock market crash has depleted my retirement savings considerable, even if it were to return to the levels before the crash, I would still need to continue to work until it recovers to the point where it would have been if the stock market had continued to rise. I was counting on those future (no past) gains to increase my retirement savings.
- I am providing financial support to my family (children, parents, extended family members).

The combination of all of these factors is simply making it impossible for an employee to make this major life changing decision in such a short amount of time. Therefore, the time line for making this decision needs to be expanded.

The above reasons are also applicable to those of us that do not qualify for retirement under this bill. Many of us, including myself know that our projected date for retirement needs to be pushed out for many additional years. In my specific case, my oldest stepdaughter has moved back home because she is unemployed. Her 17 year old daughter has also moved into our home. My youngest stepdaughter was laid off during the pregnancy for her first child. Her husband was laid off 2 weeks after the birth of the baby. With his layoff their family lost their health insurance. Being proud grandparents, prior to the birth we had already provided them with gifts that the mother and baby would need. This included such things as a crib, changing table, maternity clothes, baby toys, and baby clothes. Due to the parents both being unemployed, the spending has continued for the past year. We have purchased a breast pump, dresser, baby room curtains, diapers, formula, baby food, toys, clothing and 1st year baby pictures. I'm not pointing out these expenses to receive some type of award, but instead to remind you that State Employee families are experiencing the same financial difficulties that the other citizens of Michigan are experiencing.

I am proud of being a husband, father, grandfather, citizen of Michigan and for being a dedicated State of Michigan employee.